

Market Segment Specialization Program



BED AND BREAKFASTS

The taxpayer names and addresses shown in this publication are hypothetical. They were chosen at random from a list of names of American colleges and universities as shown in Webster's Dictionary or from a list of names of counties in the United States as listed in the United States Government Printing Office Style Manual.

This material was designed specifically for training purposes only. Under no circumstances should the contents be used or cited as authority for setting or sustaining a technical position.



Department of the Treasury
Internal Revenue Service

Training 3149-105 (5-93)
TPDS 83186H

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I. Overview

According to a study of the Yellow Pages by American Business Information, an Omaha based firm that tracks advertising in the Yellow Pages, growth in the Bed and Breakfast industry is up 33.1% and there were 4457 listings in 1989 in the Yellow Pages. The average annual occupancy rates per the Sonoma County Convention and Visitors Bureau runs between the 60% to 70% range and growth in the industry shows an average annual increase of 5% to 10%. Based on a 1988 national survey of innkeepers, Bed and Breakfasts with less than four guest rooms do not make money. With up to seven rooms, an average profit would be about 8 percent annually. Inns with 21 rooms can have a 29 percent annual return. If there is an absentee-owner the profit will go down and according to the survey, "nothing less is workable" than inns with more than 20 guest rooms.

In today's market, anyone can find a Bed and Breakfast to suit their tastes. It can range from one or two bedrooms in a modest residence to a room in a restored Victorian or a posh stay catering to the horsey set with a "room" in the barn for the horse. Others have accommodations for cats and/or dogs. Some Bed and Breakfasts are out in the country while others are downtown.

Other sources of income besides room rental exist. Some proprietors offer gift shops, taxi service, jams and jellies, homemade crafts, wines, and other items for sale to the guest.

Just as there are different kinds of bed and breakfast inns, the tax treatment of the inns will vary. IRC sec. 280A will come into play more often when you have a few rooms being rented out in a personal residence. Whereas, with an inn of 20 rooms it will not. IRC sec. 162 will govern because these are more like a hotel and motel business. Frequently, IRC § 183 will dominate because the taxpayer has not shown he is engaged in a activity for profit. One of the most common issues is personal use and/or expenses per IRC § 262, especially with food, utilities, and auto expenses.

There are many ways to audit Bed and Breakfasts. One of the keys to working a bed and breakfast is to contact various third parties (such as county records) for information. These state, local, or county agencies can be a wealth of information (enclosed is a section dealing with this type of information).

Some taxpayers misunderstand how much of the residence can be depreciated and what expenses can be deducted. Depreciation is taken for not only the room(s) rented out but also the common areas that are shared by the family and guests. These common areas are not depreciable, but only those areas that are exclusively and solely used for business. Sometimes personal expenses are deducted. These areas are discussed in more detail under "Issues".

II. INITIAL PROCEDURES

1. Change source code to 67, Information Gathering Project, status to 10, and Project Code to 775. The status code is changed to 12 when the case is opened. These procedures will vary depending upon individual district and region requirements.
2. Pre-Audit - minimum review to include:
 - a. Copies of any prior State or Federal audit reports.
 - b. Copies of annual County Bed tax returns.
 - c. Cash T and Bank Deposit Analysis.
 - d. Extraordinary expenses and issues identified in the precontact analysis should be reviewed. Also, compare Schedule C and Schedule A for interest and tax allocations.
 - e. Special attention should be given to personal usage of food and structure, and potential remodel of future retirement homes.
 - f. Order transcripts for prior and subsequent years. Be sure to obtain payroll transcripts using MFT 01 (for Forms 941) and MFT 10 (for Forms 940).
 - g. Order IRP documents to identify "other" sources of income.
 - h. County Records have license applications which may be very informative. The Planning, Building, and Health Departments as well as the Tax Assessor will have information.
 - i. Be aware of the tax ramifications of Real Estate transactions especially when business and personal aspects are present.
 - j. Do the taxpayers advertise in the phone book? Look for ads describing establishment and services available. Are credit cards accepted?

3. Timeliness:

Secure returns, set up appointments, perform the examinations, obtain any additional information, make timely, and quality decisions in order to secure expeditious resolutions.

4. Interviews:

Be prepared, your first interview may be on-site. During this review, be aware of the structure and its surroundings. Ask all appropriate questions as a second contact may not elicit information as easily as the first. Use the attached questionnaire for pertinent questions.

III. General Information and Audit Questions

Taxpayer Name : _____
Address : _____
City, State, Zip : _____

Name of B & B : _____

Location : _____

Phone Numbers : (H) _____
: (W) _____

1. Date Acquired?
2. Desirability of location vs. rental income received?
3. Condition of structure?
4. Cost to renovate to make establishment ready for business?

| | <u>Number</u> | <u>Rate</u> |
|--|-------------------------|-------------|
| 5. No. of guest rooms with private baths | _____ | _____ |
| 6. No. of guest rooms with shared baths | _____ | _____ |
| 7. No. of bedrooms with sinks in them | _____ | _____ |
| 8. Other room available to the public: | | |
| | () Living Room | |
| | () Dining Room | |
| | () Porches | |
| | () Garages | |
| | () Basements | |
| | () Separate Structures | |
| | () Gardens | |

9. Description of Dwelling:
 - A. Total number of rooms
 - B. Portion used exclusively for business
 - C. Portion used by taxpayer
 - D. Members of the tp's family living in the B & B
 - E. Sketch of the floor plan

F. Location of taxpayer's domicile.

G. Entertainment center (i.e. number and location of TV, VCR's, piano etc.) Located in one area or is there separate equipment in the taxpayer's personal quarters?

10. Room Rates: With Bath Without Bath

Double

Single

Suites

Separate Guest Cottage

11. Date opened for business? Has the business ever been closed?

12. Is this a seasonal activity?

13. No. of days open during the year?

14. Do you have a minimum no. of days required for a stay?

15. Are one day events acceptable? (i.e. weddings, parties etc). Do you charge additional for one day events?

16. Can clients use their own caterers or must they go through you?

How much do you charge for this service?

17. Meals included in rates:

() Regular or Continental Breakfast

() Lunch

() Dinner

18. Type of credit cards accepted?

19. Is there an extra fee if clients have pets?

20. Do you keep personal pets/livestock on the property?

21. Age of children accepted? Do you allow children to stay free of charge if under a certain age?

22. Do you have a liquor license? Do you provide complimentary wine or do you charge for it?

23. How much do you charge?

24. How much do you charge for cancelled reservations?

25. How much do you charge for deposits? How much of the deposit is refundable?
26. Are you licensed with the () City () County?
27. Approximate ages of the taxpayers?
28. Taxpayer's plans for retirement from B & B or other industries?
29. Previous experience with transient lodging activities? (IRC § 183 question) How well did you do? Did you have any profits?
30. How is advertising done?
31. Insurance carrier and costs?
32. What type of employees do you have? i.e. Cooks, maids, mechanics, housekeepers, gardeners etc.
33. Did you obtain a loan to purchase the Bed and Breakfast?
34. Provide a copy of the loan application.
35. Sources of the money used for the down payment of the B & B?
36. Ever audited? Please provide copies of any audit reports received.
37. Is there other items sold at the B & B location (i.e. gifts, maps, wine, books etc.)?
38. Do you charge a fee for making reservations, how much?
39. Do you receive tips or other gratuities?
40. Do you do bartering for goods or services?

Form **4564** Department of the Treasury - Internal Revenue Service
INFORMATION DOCUMENT REQUEST

| | |
|------------------------|---------------------------|
| TO: (Name of Taxpayer) | Subject/Previous Requests |
|------------------------|---------------------------|

PLEASE HAVE THE FOLLOWING ITEMS AVAILABLE AT THE TIME OF THE AUDIT.

- 1) Copy of prior and subsequent year Federal Income Tax Returns.
 - a) Copies of any amendments to the original returns.
- 2) Copy of prior revenue agent's reports, if any.
- 3) Copy of related tax returns:
 - a) State Franchise Tax Board and State Board of Equalization.
 - b) Partner's Form 1040
 - c) Bed tax returns.
- 4) Payroll tax returns.
 - a) Forms 941 for all quarters encompassing the taxable year.
 - b) Form DE-3 for all quarters encompassing the taxable year.
 - c) Form 940 for the two calendar years encompassing the taxable year.
- 5) Forms W-2, W-4, and 1099 issued.
- 6) Form 2848 (Power of Attorney) or Form 2848-D (Authorization and Declaration) if necessary.
- 7) Journals:
 - a) General - including payroll
 - b) Cash Disbursements
 - c) Cash Receipts
 - d) Voucher Payables
 - e) Sales
 - f) Purchases
 - g) Any other special or subsidiary journals maintained.
 - h) Registration book and quest cards.
- 8) Working trial balance with account numbers.
- 9) Chart of Accounts
- 10) Adjusting and closing journal entries.
- 11) Agreements between you and any other owner(s)/partner(s).
- 12) Copy of certified audit report, if any.
- 13) Copies of monthly bank checking statements, both business and personal for the 12 months under audit plus one month before and one month after.
- 14) Copies of monthly bank savings statements and savings passbooks for all business and personal accounts plus one month before and one month after the year(s) under audit.
- 15) Brokers statements, margin accounts, and any 1099s received.
- 16) Escrows, loan documents, and purchase contracts.
- 17) Guest registration book or cards.

| | | |
|-------|-----------------------------|------|
| | Name and Title of Requester | Date |
| FROM: | Office Location | |

IV. Research

- A. The Internal Revenue Code does not specifically address the bed and breakfast industry but we have general code sections that are applicable.

IRC § 61 - Rents are taxable.

IRC § 121 - Exclusion on Sale of Residence
(\$125,000.00)

IRC § 162 - Ordinary and Necessary business expense
deductions

IRC § 167 - Depreciation

IRC § 183 - Activities not for profit

IRC § 195 - Start-up expense

IRC § 262 - Personal and non-deductible expenses

IRC § 280A- Treatment of residence used for
business.

IRC § 1031- Like-kind exchanges

IRC § 1034- Sale of Residence

- B. Other Research

1. **IRS Letter Ruling 87-32002 April 2, 1987** - Only expenses that are directly allocable to those rooms of an antebellum home used exclusively in the taxpayer's bed and breakfast activity could be deducted as business expenses. The special restrictions on deductions related to a residence used for business and personal purposes did not apply to the portion of the home used as an inn. (Letter rulings can not be cited as legal precedent. They are included in this package for guidance and discussion of the law.)
2. Sale of Residence - RR 82-26.82-1 CB 114 - The part of the gain on the sale of a personal residence that is allocable to the part of the residence used in the taxpayer's trade or business may not be deferred under IRC § 1034 if the business use meets the requirements of IRC § 280(c)(1) in the year of sale.
3. **IRS Letter Ruling 83-03007 May 25, 1982** - An individual who rented 3 of the 4 bedrooms of his home to other people may deduct the expenses allocable to the rented rooms to the extent of gross rental income. Interest and Taxes allocable to the rented rooms must be deducted

before other expenses are allocated and deducted. (Letter rulings can not be cited as legal precedent. They are included in this package for guidance and discussion of the law.)

4. **R M McKay 51 TCM 1030. Dec 43,062(M) TC Memo, 1986 - 202** Although the taxpayer claimed that their activities during the years in question were related to a business conducted with a profit motive, the court found that the capital improvements made to the property were intended to prepare the property for other activities, such as the ultimate establishment of the taxpayer's residence. The court ruled that the taxpayers failed to establish that they had been engaged in a bona fide business activity.

V. ARTICLES AND STATISTICS

A. ARTICLES

1. Because of the increasing growth of the bed and breakfast industry, newspaper and magazine articles appear almost daily. They show what the owners/taxpayers are thinking. Some of the views are quite candid and from an audit point of view, the question would be "Were they intent on making a profit"?

A charming bed and breakfast inn set in the romantic countryside is fine for storybooks and travel brochures but to an examining officer, the "nuts and bolts" of the Code still apply: Is the taxpayer in a trade or business? And, if it is a trade or business, what are the ordinary and necessary expenses?

2. The following are some articles on the industry:
 - a. "Odd Ways to Rate the Economy", San Francisco Chronicle, 4/19/90.
 - b. "B&B's a Labor of Love, Money, and Endurance", The Press Democrat, 5/14/90
 - c. "An Inn Perfect for the 'Mink and Manure' Set" The Press Democrat, 6/11/89.

B. Statistics

A recent (1988) survey was conducted by the Professional Association Innkeepers International (PAII) of innkeepers nationwide. Some of the findings of this survey are enclosed in this packet to assist with the audit of bed and breakfast inns.

Those who responded to the survey have been identified by room size, geography, and years in business. A total of seventy-two innkeepers from eight states responded to the survey representing a wide range of climates from small towns to big cities covering the west, north, and south western borders to the heart of the South and the coast of Maine. Those that answered also included the cost factors from their investment, the gross revenue, fixed and variable expenses.

Those who responded to the survey by:

Room Size

| | | |
|---------------|----|--------|
| 2 - 4 Rooms | 10 | 13.89% |
| 5 - 10 Rooms | 45 | 62.50% |
| 11 - 20 Rooms | 11 | 15.28% |
| 21 + Rooms | 6 | 8.33% |

Geography

| | | |
|-----------------------|----|--------|
| Coastal Resort* | 34 | 47.22% |
| Rural | 17 | 23.61% |
| Urban | 9 | 12.50% |
| N Y & CA Wine Country | 12 | 16.67% |

* Includes - California Coast (Mendocino to Laguna)
- Ashland, Oregon, Park City, Utah - Sedona,
Arizona, and Maine Coast.

Years in Business

| | | |
|-------------|----|--------|
| 1 - 3 Years | 17 | 23.61% |
| 4 - 6 Years | 25 | 34.72% |
| 7 + Years | 30 | 41.67% |

Operating statistics included a section on breakfast and the food served.

Breakfast Included

| | | <u>Average Cost</u> |
|---------------|--------|---------------------|
| 2 - 4 Rooms | 100% | \$ 3.44 |
| 5 - 10 Rooms | 97.78% | 3.86 |
| 11 - 20 Rooms | 90.91% | 2.32 |
| 20 + Rooms | 83.33% | 2.82 |

The food served included baked goods, cereal, cheeses, egg dish, fruit juices, hot drinks. These were the main foods with lessor percentage, (30%) serving meat dishes, pancakes, waffles, potatoes, pudding, and yogurt. Wines, cocktails, and afternoon snacks were

not included in the above but percentages were given for lunches and dinners served.

| | <u>Meal Available</u> | <u>Included in Price</u> |
|---------------|-----------------------|--------------------------|
| 2 - 4 Rooms | 0 | 0 |
| 5 - 10 Rooms | 26.67% | 25% |
| 11 - 20 Rooms | 18.18% | 0 |
| 20 + Rooms | 66.67% | 25% |

Other amenities listed in the survey included afternoon teas, bicycles, cookies, flowers, games, hors d'oeuvres, jacuzzi or spa, liquor, massage, notions, picnic baskets, pool, refrigerator use, sauna, social hour, television, souvenirs, telephones, turndown service, wine or sherry, chocolate/candies, golf libraries, restaurant, guide, and activities services. There were no percentages available for these amenities.

Shown were hours devoted each week by owner to run the inn and the owners' estimate of what it would cost to have some one replace themselves. Employee statistics were also included.

| <u>Owners Rooms</u> | <u>Hours per Week</u> | <u>Salary</u> |
|---------------------|-----------------------|---------------|
| 2 - 4 | 51.92 | \$390.50 |
| 5 - 10 | 72.20 | 657.43 |
| 11 - 20 | 66.73 | 570.23 |
| 20 + | 66.71 | 730.83 |

| <u>Employees Rooms</u> | <u># of Employees</u> | <u>Hours per Week</u> |
|------------------------|-----------------------|-----------------------|
| 2 - 4 | 3.20 | 20.35 |
| 5 - 10 | 3.84 | 20.51 |
| 11 - 20 | 7.75 | 29.51 |
| 20 + | 21.2 | 25.43 |

The survey showed 7 days per week and 12 months a year to the norm of operation.

Occupancy (average)

| <u>Room Size</u> | <u>1986</u> | <u>1987</u> |
|------------------|-------------|-------------|
| 2 - 4 | 59% | 58% |
| 5 - 10 | 48% | 51% |
| 11 - 20 | 54% | 58% |
| 21 + | 51% | 54% |

EXPENSES

a. VARIABLE EXPENSE

| | 2-4 | 5-10 | 11-20 | 21+ | Overall |
|----------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| | <u>Rooms</u> | <u>Rooms</u> | <u>Rooms</u> | <u>Rooms</u> | <u>Average</u> |
| Food | \$4,219 | \$9,567 | \$18,313 | \$64,891 | \$14,771 |
| Room & Hsekeeping Supplies | 1,935 | 4,629 | 10,632 | 10,253 | 5,641 |
| Hrly/Part-time Employees | 11,333 | 16,982 | 37,003 | 48,850 | 21,912 |
| Food & Beverage Employees | 0 | 1,465 | 2,327 | 56,528 | 5,982 |
| Utilities | 3,696 | 6,588 | 13,727 | 20,158 | 8,408 |
| Towels & Linens | <u>1,085</u> | <u>1,727</u> | <u>2,583</u> | <u>3,370</u> | <u>1,905</u> |
| Total Variable Expenses | \$22,268 | \$40,958 | \$84,585 | \$204,050 | \$58,619 |

The table below represents the % of inns that include purchases for both family and guests in their food expense figure above.

| | | | | | |
|----------------------|---------|----------|----------|----------|----------|
| Purchases for Family | 10.00% | 44.44% | 27.27% | 33.33% | 36.11% |
| % for family | 1.50% | 7.69% | 2.26% | 1.90% | 5.52% |
| \$ for family | \$32.42 | \$668.98 | \$544.65 | \$303.25 | \$531.09 |
| # in family | 1.00 | 2.20 | 2.00 | 3.00 | 2.19 |

b. FIXED OPERATING EXPENSES

| | | | | | |
|-------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|
| Marketing | \$2,738 | \$4,975 | \$13,921 | \$9,498 | \$6,408 |
| Commissions | 611 | 383 | 3,030 | 1,156 | 884 |
| Office Supplies | 681 | 1,156 | 5,264 | 3,057 | 1,876 |
| Telephone | 1,506 | 2,121 | 5,475 | 5,762 | 2,851 |
| Travel & Entertainment | 1,149 | 1,349 | 1,863 | 948 | 1,367 |
| Dues & Subscriptions | 509 | 1,075 | 1,324 | 1,608 | 1,079 |
| Auto Expense | 662 | 1,627 | 1,661 | 2,412 | 1,563 |
| Maintenance Expense | 3,905 | 6,015 | 13,931 | 15,571 | 7,727 |
| Outside Services | 1,978 | 3,168 | 6,396 | 6,492 | 3,773 |
| Insurance Expense | 2,226 | 4,341 | 8,447 | 15,606 | 5,613 |
| Legal & Accounting | 1,748 | 1,466 | 4,153 | 6,957 | 2,373 |
| Business Taxes | 1,703 | 3,606 | 10,352 | 10,097 | 4,914 |
| Interest Expense | 17,775 | 21,382 | 57,982 | 26,688 | 26,915 |
| Salaries | 2,125 | 3,098 | 29,859 | 41,157 | 10,223 |
| Owner's Wages | 1,997 | 10,668 | 10,692 | 14,297 | 9,770 |
| Other Expenses | <u>6,623</u> | <u>2,621</u> | <u>16,520</u> | <u>36,410</u> | <u>8,116</u> |
| TOTALS | \$47,936 | \$69,051 | \$190,870 | \$197,716 | \$95,452 |
| Less Owner's Wages | <u>(1,997)</u> | <u>(10,668)</u> | <u>(10,692)</u> | <u>(14,297)</u> | <u>(9,770)</u> |
| ADJUSTED FIXED EXPENSES | <u>\$45,939</u> | <u>\$58,383</u> | <u>\$180,178</u> | <u>\$183,419</u> | <u>\$85,682</u> |

| | | | | | |
|---------------------------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| TOTAL VAR.+FIXED EXPENSES | <u>\$68,207</u> | <u>\$99,341</u> | <u>\$264,763</u> | <u>\$387,469</u> | <u>\$144,301</u> |
|---------------------------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|

| | | | | | |
|----------------------|------------|----------|----------|----------|----------|
| *NET INCOME/LOSS '87 | (\$15,313) | \$20,732 | \$56,379 | \$76,766 | \$25,841 |
|----------------------|------------|----------|----------|----------|----------|

*Does not include depreciation or debt service.

c. ANNUAL COST PER ROOM EXCLUSIVE OF DEBT SERVICE, DEPRECIATION AND OWNER WAGES/DRAW

| <u>Room Size</u> | <u>Cost per Room</u> |
|------------------|----------------------|
| 2 - 4 rooms | \$15,282 |
| 5 - 10 rooms | \$10,888 |
| 11 - 20 rooms | \$13,953 |
| 21+ rooms | \$13,368 |

%BREAKDOWN OF EXPENSES

BY ROOM SIZE

a. VARIABLE EXPENSES

| | 2-4 | 5-10 | 11-20 | 21+ | Overall |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| | Rooms | Rooms | Rooms | Rooms | Average |
| Food | 18.95% | 22.36% | 21.65% | 31.80% | 25.20% |
| Room & Hsekeeping Supplies | 8.69% | 12.30% | 12.57% | 5.02% | 9.62% |
| Hrly/Part-time Employees | 50.89% | 41.45% | 43.75% | 23.95% | 37.39% |
| Food & Beverage Employees | 0.00% | 3.58% | 2.75% | 27.70% | 10.20% |
| Utilities | 16.60% | 16.09% | 16.23% | 9.88% | 14.34% |
| Towels & Linens | <u>4.87%</u> | <u>4.22%</u> | <u>3.05%</u> | <u>1.65%</u> | <u>3.25%</u> |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

b. FIXED OPERATING EXPENSES

| | | | | | |
|------------------------|---------------|--------------|--------------|---------------|--------------|
| Marketing | 5.71% | 7.20% | 7.29% | 4.80% | 6.71% |
| Commissions | 1.27% | 0.55% | 1.59% | 0.58% | 0.93% |
| Office Supplies | 1.42% | 1.67% | 2.76% | 1.55% | 1.97% |
| Telephone | 3.14% | 3.07% | 2.87% | 2.91% | 2.99% |
| Travel & Entertainment | 2.40% | 1.95% | 0.98% | 0.48% | 1.43% |
| Dues & Subscriptions | 1.06% | 1.56% | 0.69% | 0.81% | 1.13% |
| Auto Expense | 1.38% | 2.36% | 0.87% | 1.22% | 1.64% |
| Maintenance Expense | 8.15% | 8.71% | 7.30% | 7.88% | 8.10% |
| Outside Services | 4.13% | 4.59% | 3.35% | 3.28% | 3.95% |
| Insurance Expense | 4.64% | 6.29% | 4.43% | 7.89% | 5.88% |
| Legal & Accounting | 3.65% | 2.12% | 2.18% | 3.52% | 2.49% |
| Business Taxes | 3.55% | 5.22% | 5.42% | 5.11% | 5.15% |
| Interest Expense | 37.08% | 30.97% | 30.37% | 13.50% | 28.18% |
| Salaries | 4.43% | 4.49% | 15.64% | 20.82% | 10.71% |
| Owner's Wages | 4.17% | 15.45% | 5.60% | 7.23% | 10.24% |
| Other Expenses | <u>13.82%</u> | <u>3.80%</u> | <u>8.66%</u> | <u>18.42%</u> | <u>8.50%</u> |
| TOTALS | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

VI. A. History

This is essential to the audit, especially if "not for profit" is an issue. Establish the taxpayers' background, business history, and the history of the bed and breakfast inn.

Explore the information needed for the nine factors enumerated at Trea. Reg. § 1.183-2(b). Not all of the factors may be applicable in each case but the more information gathered the easier it will be to decide if IRC § 183 applies.

The factors enumerated at Trea. Reg. § 1-183-2(b) are as follows:

1. Manner in which the taxpayer carries on the activity.
2. The expertise of the taxpayer or his advisors.
3. The time and effort expended by the taxpayer in carrying on the activity.
4. Expectation that assets used in the activity may appreciate in value.
5. The success of the taxpayers in carrying on other similar or dissimilar activities.
6. The taxpayer' history of income or losses with respect to the activity.
7. The amount of occasional profits, if any, which are earned.
8. The financial status of the taxpayer.
9. Elements of personal pleasure or recreation?

See the text of the regulation for discussion of each factor and examples.

B. Income

Unreported income appears in unlikely places. Most rents are reported but the charges for extras can be missed. These extras may be a variety of items and most are covered by the audit questionnaire. Areas of other income:

1. Reservation/Cancellation Charges
It is not an uncommon practice to receive one day's room charge at the time of the reservation. If a guest cancels the reservation, a fee of \$10.00 and up may be charged. Cash basis

taxpayers may not be reporting income when received.

2. Taxi Service

This fee may arise when the operator shuttles guests to and from airports, stations, shopping malls, etc.

3. Additional fee for children and pets.

4. Gifts and Crafts

Some bed and breakfast inns may have a gift shop or just a display area for postcards, maps, papers, etc. Some may sell homemade items that have become specialties, such as jams, breads, herb-scented vinegars, etc. Cottage industry crafts are also not uncommon.

5. Referral Fees

A bed and breakfast may receive referral fees from local businesses for the guest's patronage.

6. Special Occasions

A bed and breakfast may have garden settings, banquet rooms or meeting rooms for special occasions such as weddings, anniversaries, parties, etc.

7. Catering Fees

A bed and breakfast may receive income for catering those special occasions.

8. Tips and Gratuities

Always a consideration.

Income, of course, is not limited to the above but it helps to get the probe started. It will not do to think in terms of only room rental.

C. Reserved

D. Payroll

Employment taxes are often an issue. The taxpayers call their workers "casual labor" or "subcontractors" when in fact they are employees. One new type of worker is the "inn sitter". These people come in and "work" the inn while the taxpayers get away for a rest or vacation. Each case's facts and circumstances will be the determining factor but often an employee is improperly treated as a subcontractor or as casual labor. This would also apply to other workers such as maids, cooks, gardeners, members of the family working at the inn, etc. Remember, if the taxpayer has control of the worker, then the worker is an employee and employment taxes are an issue.

E. Business vs Personal Expenses

Personal expenses are deducted as business expenses on the schedule C's. These expenses are found in almost every category beginning with cost of goods sold to advertising and other expenses. Some areas of non-compliance are found to be:

1. Bank Charges - deduction of total monthly charges on both, business and personal accounts, or when there is one account and all personal income and expenses are run through it.
2. Interest, Taxes, and Insurance - the business percentage is too high and may include items not related to the bed and breakfast activity.
3. Food - deduction includes the family's portion. Record-keeping may be poor to nonexistent. The register receipts from the store are the only record that has been kept. No allocation for the specific food used for the guest is made. If no records have been kept and no reasonable allocation has been made, an audit technique would be to first check with the county and find out what type of meal can be served - continental or traditional breakfast. Determine an average cost (not fair market value) of a meal and multiply it by the number of guests. When checking with the county be sure to ask if food can be served at other times during the day, and if so, what limitations exist. If food and drink are allowable at different times and the taxpayer does not have appropriate records, use the average cost times the number of guests to get a reasonable deduction. If the taxpayer goes beyond what is allowed by county rules and regulations, then no deduction will be allowed for the extra expense. Food purchased for the guests but consumed by the family is not deductible.
4. Utilities - deductions are disproportionately higher than the actual expense allowable. The percentage used to determine the business portion for depreciation is not always the same to be used for utilities. For example, if the business portion of the inn is 40% but the utilities directly relating to the business portion may only be 20%. Cable television is another expense where allocations can differ or may not be deductible. If there is only one television available for family and guest, no allocation can be made between business use and personal use. In these cases, no direct business relationship can be shown, and therefore, no deduction is allowable.

5. Telephone - deductions are taken for the full or percentage of basic rate plus the toll calls. If there is no separate business line going into the home/inn then there is no deduction for the basic rate (not even a percentage). Only the direct business toll calls may be deducted.
6. Repairs and Maintenance - deductions are taken for repairs and maintenance for the interior and exterior of the home. The business use percentage may be applied to the total expense. Deductions for repairs and maintenance to areas other than the specific rooms held for business are not deductible. Repairs to the exterior and grounds are not deductible. Personal and capital expenditures are often included as repairs and maintenance expenses.
7. Common Area - space used by the family and guests is common area. This may include kitchen, dining room, living room, den, etc. no deduction is allowable for this space. This is different from the provisions for day care services addressed by IRC § 280A(c)(4).

There are other areas in which personal expenses have been misrepresented as business expenses. The above are the most commonly found.

F. Hobby versus Trade or Business

No difference exists for determining the issue of carrying on a trade or business for a Bed and Breakfast Inn as for any other business. The facts and circumstances of each case will be the determining factor. It should be remembered, though, that many people enter into this venture with the full intention of making a profit but with no research, prior experience, or knowledge of tax law and its requirements and rules.

This can be illustrated by a recent audit. The taxpayers have lived in the Los Angeles area for many years. They wanted a change of pace so they sold their home realizing a gain of over \$300,000.00. They began looking in the coastal region of Northern California for a home in which to have a bed and breakfast inn. They purchased a Victorian home that needed restoration to convert into an inn. Before the end of the year they knew that they were not equipped to, and did not want to, conduct this as a business. They currently have a home that is partially restored and has consumed \$500,000.00. The tax return shows de-minimus income and a \$20,000.00 loss on the

schedule C. The income is from friends that stayed one night. After two years the inn is still not open for business. The taxpayers feel they are entitled to the loss because their intent was to open a business and make a profit. The facts are, no business was begun, therefore, no operating loss is allowable. The taxpayers have a partially restored Victorian as their personal residence and no money left in the bank.

IRC § 280A(g) states that if a residence is rented for less than 15 days during the taxable year, then

- 1) no deduction otherwise allowable under this chapter because of the rental use of such dwelling unit shall be allowed,

and

- 2) the income derived from such use for the taxable year shall not be included in the gross income of such taxpayer under IRC § 61.

In other words, if a personal residence is rented for less than 15 days, the income is not taxable nor are the expenses attributable to the rental deductible.

G. Real Estate Sales

Two areas of potential abuse are the acquisition and the disposal of the inn. The purchase may involve a deferred or excluded gain from the sale of a residence. The taxpayer will use an incorrect business percentage to maximize the tax benefits. The same holds true upon the sale of the property. In both cases there may be a gain that is taxable in the year of the transaction.

The property may involve a like-kind exchange. Once again the taxpayer may use an incorrect business percentage to receive the best tax treatment.

Depreciable basis may be overstated by understating the value of the land. Or, in the case of converting the personal residence to business use, the greater fair market value is used instead of the lower cost basis.

H. Bartering

Bartering does enter the sphere of bed and breakfast inns. This may be found with vacations where the taxpayers stay somewhere else and in return, allow free or low cost stays at their inn. It may be in the form of goods and services in exchange for a stay at the inn.

I. Current versus Capital Expenditures - Depreciation

Deductions for capital expenditures as current expenses is a continual problem. Supplies or miscellaneous expenses include large item purchases such as kitchen cookware, appliances, tableware, linens, furniture, carpeting, and garden equipment. This is especially true for those bed and breakfast inns that are just starting. Thousands of dollars are spent outfitting the inn and all are deducted as current expenses. Cost of items purchased should be capitalized and depreciated if the items have an estimated useful life exceeding one year.

Start-up expenses should be determined and deferred per IRC § 195.

Antiques are popular furnishings for an inn. Taxpayers believe they can fill the house with antiques or period pieces and deduct them. Only those items that are directly related to the rooms used for business may be deducted. Acquisition costs of the antiques such as freight or mileage must be added to the basis of the antique rather than expensed.

Vacations or weekend getaways are disguised as "buying trips" or "antique hunting". Careful attention should be paid to these trips. If they are vacations or personal trips then, of course, they are not deductible.

J. Depreciation

Treatment of IRC 1250 property under MACRS falls into two classes -residential rental and non-residential rental.

Residential rental property is real property that is a rental building or structure (including mobile homes) for which 80% or more of the gross rental income for the tax year is rental income from dwelling units. If any portion of the building is occupied by the taxpayer, gross rental income includes the fair rental value of that portion in computing gross rental income.

A dwelling unit is a house or an apartment used to provide living accommodations in a building or structure, but does not include a unit in a hotel, motel, inn or other establishment where more than half of the units are used on a transient basis.

Transient per Treas. Reg. § 1.48-1(h)(2)(ii) is defined as accommodations furnished for a rental period of less than 30 days.

Since the rental period for most inns is less than 30 days the property is non-residential property. The taxpayer must use the longer life, 31.5 years as opposed to 27.5 years.

IRC § 179 deductions are taken when, in fact, they are not allowable because of the taxable income limitation. The deduction is limited to the taxable income which is from the active conduct of the trade or business. A loss may not be created by a deduction for IRC § 179. The deduction, however, may be carried over to the next year.

VII. THIRD PARTY INFORMATION

Consider securing third party information whenever information is needed but the taxpayer is unwilling to give; does not know; or, there is a conflict in what is known and what is said.

One source of invaluable information is the city and/or county where the inn is located. After calling several counties in Northern California, it was discovered that no two counties handle the bed and breakfast establishments in the same manner. Some are very liberal and others are very restrictive. For example, consider food served to guests. Of the counties contacted, Lake and Napa allow only a continental breakfast: fruit, juice, coffee, tea, pastries, and pies (without cream or custard fillings) and hard cheese. Any other food served is in violation of the county codes. On the other hand, Mendocino has no such restriction for food. So, if you have an issue regarding food, you may want to check with the county for their particular regulations. Some may have restrictions on food served at other times during the day. Others may allow fruit, crackers, or an evening drink or cordial.

Also, at county records is an application for the permit(s). Along with the application is a detailed description of the area in the home used for the bed and breakfast inn. A drawing or blueprint is usually required. These are public record, and can be viewed by the examiner. They can be invaluable when you are determining depreciation.

The county departments contacted to get the above information were Building and Planning departments, or equivalent, and also the Health Department.

The following attachments are from a few of the counties surveyed. These are included only as a guide for what you may be able to find in the county where your bed and breakfast is located. Remember that there may also be city requirements if the property is located within city limits.

The country tax assessor will be able to give you the value of land and improvements if not available through the taxpayer. They can also tell you the amount of land involved if that becomes a factor.

Note: These are by no means the only third party contacts available. Those will be determined by the facts and circumstances of the case. What is included here illustrates the type of information that is available at the county/city level.

The following seventeen pages of this document provide various information relative to the regulations governing bed and breakfasts, which are located in Marin County, California. These exhibits are offered to illustrate the type of information which may be available in your area.

MARIN COUNTY ENVIRONMENTAL HEALTH SERVICES

MARIN COUNTY CIVIC CENTER, ROOM 283

SAN RAFAEL, CA 94903

(415) 499-6907

RULES AND REGULATIONS

FOR

BED AND BREAKFAST

Edward J. Stewart, Chief
Environmental Health Services

All Bed and Breakfast must be under Health permit in pursuant to the California Uniform Retail Food Facilities Law, Chapter 4, Article 17. Restricted Food Service Transient Occupancy Establishments.

Definition:

SECTION 27535.5

Definition of Bed and Breakfast:

- *Restricted food service transient occupancy establishment
- *20 questrooms or less
- *Serves food only to its registered guest
- *Serves only breakfast or similar early morning meals
- *Price of meal is included in the price of the overnight stay
- *The predominant relationship between occupants and the owner is innkeeper and guest.

This Office of Environmental Health Services of Marin County has developed this guideline to simplify the provisions called for Bed and Breakfast of the California Uniform Retail Food Facilities Law, Article 17 entitled "Restricted Food Service Transient Occupancy Establishments".

In preparation for procedures to obtain a health permit, the owner or applicant shall follow these steps:

1. Consult the local planning and/or Zoning Administrator who has jurisdiction over the area for the issuance of zoning permit, use permit, or change of use of the properties, etc.
2. Consult the local agency, health department or community district service who governs the enforcement and requirements of sewage system or septic tank systems.
3. Consult the local agency or community water district service or county health department who governs the enforcements and requirement for potable water supply.

In order for the applicant to save time and prevent delay for the approval of his/her establishment, the Environmental Health Services of Marin County has developed a guideline, which can be of great help in meeting the laws in the California Uniform Retail Food Facilities Laws. Always keep in mind the fact that this guideline is intended just for this purpose and any food service activities are ultimately governed by CURFFL.

SECTION 27851

Restricted food service transient occupancy establishment (Bed and Breakfast) shall serve food which are manufactured, produced, prepared, compounded, packed, stored, transported, kept for sale, and served so as to be pure, free from contamination, adulteration and spoilage; shall have been obtained from approved sources; shall

otherwise be fully fit for human consumption.

SECTION 27851

Although in CURFFL SECTION 27604 states that no food prepared or stored in a private home shall be used, stored, served, offered for sale or sold or given away in a food facility, in a restricted food service transient occupancy establishment shall not be deemed to be a "private home" solely because the owner or operator thereof resides on the premises or prepares on the premises food for his or her consumption and that of his or her family.

SECTION 27853

Owners, managers, operators, employees, workers, or food handlers who prepare, serve, and handle food and food products or utensils shall wear clean washable under-garments or other clean uniforms, and shall keep their hands clean. All food workers and food handlers shall wash their hands and arms with cleanser and warm water before commencing work, immediately after using toilet facilities, and at other times as are necessary to prevent contamination of food. All employees and food handlers shall wear suitable coverings to confine all hair when required to prevent the contamination of food or utensils. No employees or food handlers shall expectorate or use tobacco in any form in any area where food is prepared, served, or stored or utensils are cleaned or stored.

SECTION 27854

Restricted food service transient occupancy establishments shall have no live animal, bird, or fowl in any portion of the premises where food for the registered guests of the establishment is used, stored, served, offered for sale or given away.

SECTION 27855

Restricted food service transient occupancy establishments (Bed and Breakfast) shall be exempted from NSF standard for equipment; however, that the enforcement offices shall have the right to disapprove any new or replacement equipment which would create a public health problem.

SECTION 27856

Restricted food service transient occupancy establishment (Bed and Breakfast) shall be exempt from the provision of section 27628 which requires a room, enclosure, or designated area, etc. provided, however, that no person shall store clothing or personal effects in any area used for storage or preparation of food.

SECTION 27857

All utensils and equipment shall be scrapped, cleaned or sanitized as circumstances require. The owner or operator of the establishment shall utilize a domestic commercial dishwasher for the purpose of cleaning and sanitizing multi-service kitchen utensils and multi-service consumer utensils, provided, however, that such dishwasher is capable of providing heat to the surface of the utensils of a temperature of at least 165 degrees Fahrenheit.

SECTION 27858

All plumbing and plumbing fixtures shall be installed in compliance with the local plumbing ordinances. They shall be maintained so as to prevent any contamination.

SECTION 27859

Restricted food service transient occupancy establishments shall be exempt from requiring commercial mechanical ventilation exhaust system, Section 27629 of CURFFL; provided, however, that ventilation shall be provided to remove gases, odors, steam, heat, grease, vapor and smoke from the food establishment.

SECTION 27860

Restricted food service transient occupancy establishments, walls and ceilings shall be of a durable, smooth and non-absorbent and washable surface. The floor shall be of non-absorbent and cleanable material.

SECTION 27861

No sleeping accommodations shall be allowed in any area where food is stored, prepared or served.

SECTION 27863

All food intended for consumption by guests shall be from an approved source. The use of home-canned foods and meats and dairy products from unapproved sources is prohibited.

**Treasurer-
Tax Collector
463-4321**

**Planning &
Building
463-4281**

COUNTY OF MENDOCINO
OFFICE OF THE TREASURER-TAX COLLECTOR
and
DEPARTMENT OF PLANNING AND BUILDING SERVICES
Application for Mendocino County Business License
and
For Certificate of Registration for Collection of Transient
Occupancy Tax
(Under Ordinances No. 382 and No. 478)

(For Office Use Only)
Business License No. _____
Transient Tax Cert. No. _____
Date Issued _____

OWNER(S) NAME _____
BUSINESS NAME _____
BUSINESS ADDRESS _____ PHONE _____
BUSINESS LOCATION _____
ASSESSOR'S PARCEL NUMBER _____
MAILING ADDRESS _____
RESIDENCE ADDRESS _____

If owner does not operate business, please give name, address and
phone number of operator or managing agent who does:

NAME _____ PHONE _____
ADDRESS _____
TYPE OF BUSINESS: RETAIL _____ WHOLESALE _____ SERVICE _____ OTHER _____
IS THIS A NEW BUSINESS? _____ OR EXISTING BUSINESS? _____
TYPE OF PREVIOUS BUSINESS ON SITE AND/OR THE PREVIOUS USE OF THE
STRUCTURE: _____
WHEN DID PREVIOUS BUSINESS CEASE? _____
MERCHANDISE TO BE SOLD _____
SERVICE TO BE RENDERED _____
BUSINESS TO BE CONDUCTED FROM: (Included office for phone or mail)
1. HOME _____ GARAGE/SHOP/ACCESSORY STRUCTURE _____ COMMERCIAL
STRUCTURE _____
ADDRESS _____
(If different from above)
ASSESSOR'S PARCEL NUMBER (If different from above) _____
SIGNED _____
DATE _____ CON'T ON REVERSE SIDE

2. IF USE IS TO PROVIDE LODGING, GIVE NUMBER OF ROOMS OR UNITS_____
3. FLOOR AREA (SQ.FT.) TO BE USED FOR BUSINESS_____
4. NUMBER OF EMPLOYEES (OTHER THAN FAMILY MEMBERS)_____
5. TOOLS, CHEMICALS, AND/OR EQUIPMENT TO BE USED IN BUSINESS_____

NOTE: When business is conducted as a "home occupation" from place of residence please be advised of the following standards:

1. There shall be no change, resulting from the home occupation, in the outside appearance of the building or premises, or other visible evidence of the conduct of such occupation other than one sign not exceeding two(2) square foot of area, non-illuminated and attached flat to the main structure or visible through a window.
2. No merchandise (except articles produced on the premises) shall be sold or displayed on the premises.
3. Not more than ten (10) customers or clients shall come to the dwelling unit for service or products during any one day.
4. Home occupations shall not involve the use of heavy commercial vehicles (over 6,000 lbs) for delivery of material to or from the premises.

PRESENTATION OF HONORABLE DISCHARGE FROM MILITARY SERVICE SHALL EXEMPT APPLICANT FROM BUSINESS LICENSE FEE. (Mendocino Co. Code Sec. 6.04.150)

NO NEW BUSINESS LICENSE SHALL BE ISSUED WITHOUT PRIOR APPROVAL OF THE MENDOCINO COUNTY DEPARTMENT OF PLANNING AND BUILDING SERVICES.

Complete this form in DUPLICATE. Mail or take both copies to the Dept. of Planning & Building Services, 589 Low Gap Road; Ukiah, CA 95482 OR present at the Treasurer-Tax Collector's Office, Room 107, Courthouse, Ukiah, CA 95482 (Phone: 463-4321).

CERTIFICATE OF APPROVAL (FOR OFFICIAL USE ONLY)
APPLICATION CLEARED_____DENIED_____BY PLANNING & BUILDING SERVICES
DATE_____SIGNED_____
(Authorized Personnel)

COMMENTS_____

COUNTY OF LAKE

PLANNING DEPARTMENT

Courthouse - 255 N. Forbes Street

Lakeport, CA 95453

Telephone 707/263-2221

FILE NO. _____

BED AND BREAKFAST
TERMS AND CONDITIONS

Section 27.3(c) of the Lake County Zoning Ordinance requires that the following standard terms and conditions be met:

1. A bed and breakfast shall contain no more than two (2) guest rooms used, designed or intended to be used, let or hired out for occupancy for one (1) or more guests.
2. Additions to an existing residence for the purposes of establishing a bed and breakfast shall be limited to fifteen (15) percent of the existing floor space of the residence.
3. Existing residences, new residences and any accessory structures shall comply with the development standards of the zoning district and the performance standards of Article 41.
4. The applicant shall comply with any fire and life safety requirements imposed by the County building official according to the Uniform Building Code and Uniform Fire Code.
5. A zoning permit for a bed and breakfast shall be valid for a period not to exceed five (5) years. Continuance of the use shall require reapplication for each successive five (5) year term. Such reapplication shall be filed with the planning department for approval prior to the date of zoning permit expiration.
6. Residential, commercial or agricultural accessory structures shall not be used for rental occupancy.
7. No cooking facilities shall be permitted in guest rooms and food service is limited to continental breakfasts served to guests only. No commercial or "Restaurant Act Kitchen" is permitted.
8. Signs shall be limited to one(1) three(3) square foot non-illuminated or indirectly illuminated attached or freestanding sign; except in the R1 and R2 districts, where signs shall be limited to one(1) two(2) square foot non-illuminated attached or freestanding sign.
9. One (1) parking space per guest room shall be provided for the exclusive use of the guests in addition to the parking requirements of the principal residence.

In addition to the above listed terms and conditions, the terms and conditions of Zoning Permit Application page 2 shall be met.

COUNTY OF LAKE
PLANNING DEPARTMENT

Courthouse - 255 N. Forbes Street
Lakeport, CA 95453
Telephone: 707/263-2221

File # _____
AP # _____
Applicant _____

ZONING PERMIT APPLICATION
(Please type or print)

Applicant:

Name _____

Address _____

City _____

State _____ Zip Code _____

Home phone(____) _____ - _____

Business phone(____) _____ - _____

Agent's name _____

Address _____

Business phone(____) _____ - _____

Property owner (if other
than applicant):

Name _____

Address _____

City _____

State _____ Zip Code _____

Home phone(____) _____ - _____

Business phone(____) _____ - _____

Being the owner of the project
location, I hereby authorize
this application.

Date Owner's signature

Project location:

Address _____

City or area _____

Present use of land: _____

Assessor's parcel number(s):

A.P.# _____ - _____ - _____

Type of zoning permit requested: _____

DESCRIPTION OF PROPOSED USE: Please complete a project description on page 3 and
site plan on page 4.

FOR DEPARTMENT USE ONLY

Received by _____ Date accepted _____ Receipt number _____

General Plan _____ Zoning _____ Permitted by sec. 27.2 ()

A.P. Number(s): _____ - _____ - _____

This zoning permit shall be subject to the following terms and conditions:

1. The applicant agrees to obtain all applicable building, health, and public works department permits, and agricultural clearances upon issuance of the zoning clearance.
2. The applicant shall comply with the conditions of Section 21-27.3().
3. The approved use shall be operated at all times in conformance with the attached conditions of Section 21-27.3 () and as described in the zoning permit application pages 3 and 4.
4. The Planning Commission may revoke the permit in the future if the Commission finds that such permit was obtained by fraud; that one or more of the terms or conditions upon which such permit was granted has been violated; or that the use for which the permit was granted is so conducted as to be detrimental to the public health, safety, or general welfare or as to be a nuisance.
5. The permittee shall permit the County of Lake or representative(s) or designee(s) to make periodic inspections at any reasonable time deemed necessary in order to assure that the activity being performed under authority of this permit is in accordance with the terms and conditions prescribed herein.
6. This permit shall become null and void if not used within a one (1) year period of time, or if the use is abandoned for a period of one (1) year.

ACCEPTANCE

I have read and understand the conditions of Section 21-27.3() and the foregoing zoning permit and agree to each and every term and condition thereof.

Date

Signature of applicant or agent

The Planning Director has determined that the zoning permit requested does () does not () meet the requirements of Section 21-49.4 of the Lake County Code and hereby issues () denies () said zoning permit.

Date:_____

By:_____

Title:_____

Comments:_____

FILE NO. _____

ZONING PERMIT PROJECT DESCRIPTION

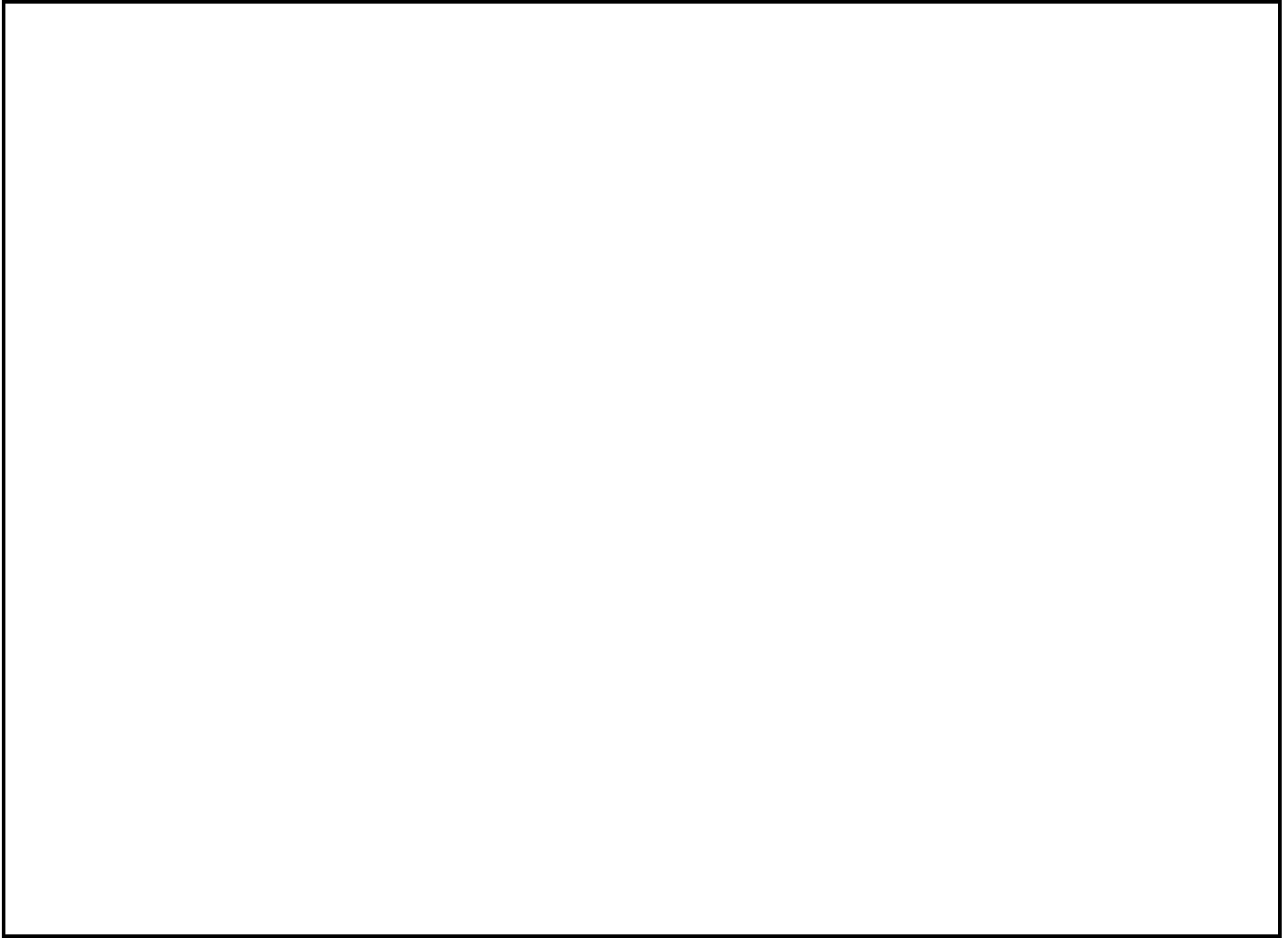
Please provide a summary of your proposed zoning permit use in the space provided below. Attach additional material if necessary. Please review the zoning ordinance conditions applicable to your zoning permit before completing this description. Your description should outline how the proposed use meets these requirements.

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

FOR DEPARTMENT USE ONLY

Comments: _____

ZONING PERMIT SITE PLAN



In the space provided above, please provide a site plan for the proposed zoning permit use. Site plans should be drawn approximately to scale and should include the following items, when applicable:

- a. A north arrow
- b. Approximate lot dimensions and lot lines
- c. Location, function and approximate size of all existing and proposed buildings on the property
- d. Location of driveways and parking areas
- e. Adjacent public and private streets
- f. For proposed dwellings and offices, the type and location of existing and proposed waste disposal and water service, and the dimensions (setbacks) between buildings and between buildings and lot lines.

APPLICATION INSTRUCTIONS

1. Complete Sections I, II and III below.
Submit all items marked on Page 2 in the Supplemental Application Requirements Section (which will be completed by Staff). If you have any questions regarding what is necessary to submit in order to begin the application process, please contact the Planner on Duty for further information.
3. Schedule an appointment with the Assigned Planner if at all possible. This is **not** mandatory; however, prearranged appointments with the Assigned Planner will help avoid processing delays (the Planner on Duty can help identify the Assigned Planner for you).

NOTE TO APPLICANTS: Processing of Applications that are not complete or do not contain truthful and accurate information may be delayed, and may result in denial or revocation of approvals.

| | | | |
|--|--|-----------------------|----------------|
| SECTION 1 | | OWNER OF RECORD | |
| 1. Name: _____ | | | |
| 2. Address: _____ | | | |
| 3. Telephone: _____ | | | |
| APPLICANT | | AGENT | |
| 4. Name: _____ | | Name: _____ | |
| 5. Address _____ | | Address: _____ | |
| 6. Telephone: _____ | | Telephone: _____ | |
| LOCATION OF PROJECT SITE | | | |
| 7. _____ | | | |
| Assessor's Parcel Number() | | Street Address | Community Area |
| 8. Size of Parcel(s): _____ or _____ | | | |
| Acres | | Square Feet | |
| SECTION II | | PROJECT DESCRIPTION | |
| (Briefly Describe the Proposed Development) | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |
| Is the proposed building or structure designed to be used for designing, producing, launching maintaining, or storing nuclear weapons or the components of nuclear weapons? Yes _____ No _____. | | | |
| SECTION III | | OWNER'S AUTHORIZATION | |
| I hereby authorize the County of Humboldt to process this application and to enter upon the property described above as reasonably necessary to evaluate the project. | | | |
| Applicant's Signature _____ | | Date _____ | |
| If the applicant is not the owner of record: I authorize the applicant to file this application and to represent me in all matters concerning the application. | | | |
| Owner of Record's Name: _____ | | Mailing _____ | |
| (Signature) _____ | | Address _____ | |
| (Dated) _____ | | | |
| Owner of Records's Name: _____ | | Mailing _____ | |
| (Signature) _____ | | Address _____ | |
| (Dated) _____ | | | |

TO BE COMPLETED BY STAFF

SUPPLEMENTAL APPLICATION REQUIREMENTS:

For all Development Projects:

- ☐ Filing Fee of \$_____
- (See attached fee schedule)
- ☐ Plot Plan/Tentative Map (8 copies)
- For Subdivisions and Related Projects:
- ☐ Preliminary Title Report (2 copies)
- ☐ Grant Deed
- ☐ Chain of Title
- ☐ Lot Book Guarantee
- ☐ Div. of Environ. Health Questionnaire
 - ☐ On-site sewage test
 - ☐ On-site water information
- ☐ Environmental Information: _____
- _____

The following Supplemental Reports for Certain Development Projects:

- ☐ Exception Request Justification
- ☐ Geologic Report
- ☐ Joint Timber Management Plan
- ☐ Reclamation Plan
- ☐ Other: _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____
- ☐ _____

APPLICATION:

- ☐ Special Permit
- ☐ Use Permit
- ☐ Variance from H.C.C. Section _____
- ☐ Exception from H.C.C. Section _____
- ☐ Surface Mining Permit
- ☐ Reclamation Plan
- ☐ Preliminary Project
- ☐ Ag. Preserve Contract
- ☐ Other _____

- ☐ Planned Unit Development
- ☐ Tentative Subdivision Map
- ☐ Lot Line Adjustment
- ☐ Zone Reclassification
- ☐ Plan Amendment
- ☐ Coastal Development Permit
() Administrative () Planning Commission
- ☐ Zoning Information Report
- ☐ Determination of Status
- ☐ Certification of Compliance

CASE NUMBERS:

STAFF RECEIPT OF APPLICATION

RECEIPT NO: _____

Application Received By: _____
Planner Date

Zoning: _____

General Plan: _____

CDC Status:

- ☐ Environmental Review Required
- ☐ Categorically Exempt From Environmental Review Class _____

SCHEDULE OF HUMBOLDT COUNTY
PLANNING DIVISIONS (277) FEES AND CHARGES

BY:
DATE:

| FEE | APPLICATION PERMIT TYPE | TOTAL |
|-------------------------------------|---|---|
| <u>\$150.00</u> | I. <u>Post Application Review</u> 1. Extension 2. Appeal 3. Modification 4. Road Abandonment 5. Performance Contract | |
| <u>\$200.00</u> | II. <u>Administrative Review</u> 1. Special Permit 2. Coastal Development Permit a. Plus \$16 Public Works Fee 3. Zone Boundary Adjustment 4. Determination of Status/Certification of Compliance a. Plus \$48 Public Works Fee 5. Lot Line Adjustment a. Plus \$25/parcel b. Plus \$29 Building Inspection Fee c. Plus \$48 Public Works Fee | |
| <u>\$250.00</u> | III. <u>Preliminary Review</u> 1. General Plan Amendment Petition 2. Preliminary Project Review 3. Development Agreement | |
| <u>\$350.00</u> Plus \$40/parcel | IV. <u>Subdivisions</u> Parcel Map 1. Parcel Map a. Plus \$125/parcel for on-site sewage disposal (DEH) b. Plus \$29 Building Inspection Fee c. Plus \$48 Public Works Fee 2. Final Tract Map (more than 4 parcels) a. Plus \$125/parcel for on-site b. Plus \$128 Public Works Fee c. Plus \$29 Building Inspection Fee | |
| <u>\$429.00</u> | V. <u>Public Hearing Items</u> (1 Hearing) X 1. Conditional Use Permit a. Plus \$64 Public Works Fee b. Plus \$25 per 30 minutes DEH Fee 2. Variance a. Plus \$16 Public Works Fee 3. Coastal Development Permit a. Plus \$16 Public Works Fee 4. Lot Line Adjustment (JTMP) 5. Agricultural Preserve Contract 6. Surface Mining Permit a. Plus \$125.00 to review Reclamation Plans | 429.00 64.00 <u>25.00</u> \$518.00 |
| <u>\$550.00</u> | VI. <u>Public Hearing Item</u> (2 Hearings) 1. General Plan Amendment (deposit only) 2. Road Name Change 3. Zone Reclassification a. Plus \$32 Public Works Fee 4. Preserve Cancellation | |

SCHEDULE OF HUMBOLDT COUNTY
PLANNING DIVISIONS (277) FEES AND CHARGES

BY: _____
DATE: _____

| FEE | APPLICATION PERMIT TYPE | TOTAL |
|-----------------|---|-------|
| | VII. Other Fee | |
| \$ See Note | 1. Special Services Fee * | |
| <u>\$ 43.00</u> | 2. Second Application Fee | |
| \$ See Note | 3. Violation Investigation Fee ** | |
| <u>\$ 50.00</u> | 4. ETR - Deposit Fee * | |
| <u>\$ 20.00</u> | 5. Ministerial Review Fee | |
| <u>\$ 43.00</u> | 6. Emergency Review Fee | |
| <u>\$ 32.00</u> | 7. Legal Description Review (Public Works) | |
| <u>\$ 32.00</u> | 8. Development Permit (Grading, Parking Plans, Drainage) | |
| <u>\$ 16.00</u> | 9. Notice of Merger (Public Works) | |
| <u>\$ 32.00</u> | 10. Waiver/Survey and Map Records (Public Works) | |
| <u>\$ 54.00</u> | 11. Planning Commission Agenda (annual) | |
| <u>\$114.00</u> | 12. Planning Commission Minutes (annual) | |
| <u>\$.80</u> | 13. Map Printing - per linear foot (\$2.00 minimum charge) | |

*Special Services (s/s) fees may be charged for administrative services for special notifications, investigations, examinations or evaluations not otherwise provided for in the Fee Schedule or not generally provided when processing projects, and for special legislative or judicative services for private projects (Actual Cost at Burdened Hourly Rate).

**For Development(s) started without Permits a double fee is charged.

TENTATIVE MAP CHECKLIST

The following information must be illustrated on your tentative map. Eight (8) copies must be submitted to the Planning Division along with your application for approval of your development project. Please check the box to the left of the following items: (x) if illustrated on the tentative map. (N/A) if not on your site to your knowledge. Tentative maps shall be drawn on a minimum sheet size of 8 1/2" x 11", and tentative subdivision maps on 18" x 26" (____ copies of tentative maps must be submitted for major subdivisions).

Applicant's Name _____ AP# _____ - _____ - _____

| TO BE COMPLETED BY THE APPLICANT | STAFF USE ONLY | |
|--|--------------------------|--------------------------|
| | Planning | Building |
| <input type="checkbox"/> 1. The applicant(s) name | <input type="checkbox"/> | |
| <input type="checkbox"/> 2. Location Map (on or attached to the plot plan) | <input type="checkbox"/> | |
| <input type="checkbox"/> 3. The subject parcel (with dimensions) | <input type="checkbox"/> | |
| <input type="checkbox"/> 4. Date, north arrow, and scale | <input type="checkbox"/> | |
| <input type="checkbox"/> 5. Existing <u>and</u> proposed access roadways adjacent <u>to or</u> within the subject parcel | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 6. Existing <u>and</u> proposed improvements (label as "existing" or "proposed" with dimensions and distance to nearest <u>two</u> property lines) | | |
| <input type="checkbox"/> a. Structures and buildings (include floor area, height and proposed use) | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> b. Driveways | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> c. Utility lines (power, telephone, sewer, water) | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> d. Septic tanks and leach fields | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> e. Wells | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> f. Parking and loading areas (illustrate individual parking spaces) | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> g. Storm drains, curbs, and gutters | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> h. Landscaped areas (include proposed exterior lighting) | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> i. Diked Areas | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> j. Proposed grading and fill (estimate volume) | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> k. Signs | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> l. Other - specify _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 7. Direction of surface water run-off | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 8. Location and width of all existing <u>and</u> proposed easements of record | <input type="checkbox"/> | |
| <input type="checkbox"/> 9. Hazardous areas (indicate on map if on the project site <u>or</u> within 400' of the project site) | | |
| <input type="checkbox"/> a. Areas subject to flooding | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> b. Steep or unstable slopes | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> c. Expansive (clay) soils | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> d. Earthquake faults | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> e. Other - Specify _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 10. Sensitive habitat areas (indicate on map if on the project site or within 400' of the project site) | | |
| <input type="checkbox"/> a. Creeks, rivers, sloughs, and other draining courses | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> b. Lakes and ponds | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> c. Marshes and other areas of ponding water | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> d. Beaches | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> e. Sand dunes | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> f. Other - Specify _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 11. Historical buildings or known archaeological or paleontological resources | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 12. Land uses and buildings on adjacent parcels, and approximate distances to the closest property lines | <input type="checkbox"/> | <input type="checkbox"/> |
| For Tentative Subdivision Maps Only: | | |
| <input type="checkbox"/> 13. Approximate dimensions and areas of all proposed lots | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 14. A statement that all easements of record are shown on the tentative map and will appear on the recorded subdivision map | <input type="checkbox"/> | |
| <input type="checkbox"/> 15. Contour lines (at _____ intervals) | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 16. For major subdivision (5 or more proposed parcels): proposed drainage improvements or reference to established standards, appropriate radii of all roadway curves | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> 17. Names and assessor's parcel numbers of all contiguous ownerships | <input type="checkbox"/> | |

STAFF USE ONLY

Reviewing Planner _____ Date _____ Building Inspector _____ Date _____
 PD-2
 08/85

VIII. BIBLIOGRAPHY

1. Bed and Breakfast U.S.A., by Betty Runback.
2. The State of California Bed and Breakfast Inns Gov't Doc. CA E138.
3. Local daily newspapers
4. The Internal Revenue Code
5. American Business Information